

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

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SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 FEAE-00 INT-05 L-03 PRS-01 PA-02

TAR-01 /115 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 2756

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL STUTTGART

AMCONSUL MUNICH

USMISSION USBERLIN

UNCLAS SECTION 01 OF 02 BONN 14787

DEPARTMENT PASS TRESASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: OPPOSITION TO BLOCK GOVERNMENT'S FISCAL
PROGRAM; GOVERNMENT RESPONSE: POINT, COUNTERPOINT

1. SUMMARY. THE OPPOSITION HAS CLEARLY STATED IT WILL
BLOCK THE VAT INCREASE. THIS SEEMS TO DOOM THE MEASURE
GIVEN THE LIKELIHOOD THE REQUIRED BUNDESRAT APPROVAL
WILL NOT BE FORTHCOMING. THE HIKE IN PRIVATE SECTOR
CONTRIBUTIONS TO THE UNEMPLOYMENT INSURANCE PROGRAM
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WAS REJECTED BY THE OPPOSITION AS BEING ILL-TIMED.

BUDGET CUTS, THOUGH, SEEM TO BE ACCEPTABLE, BUT DO

. NOT GOFAR ENOUGH. THE CDU/CSU ALTERNATIVE POLICY FOR DEALING WITH THE FISCAL PROBLEM WILL BE MADE CLEARER LATER, BUT SEEM CENTERED ON MORE MASSIVE BUDGET CUTS RATHER THAN THE REVENUE GENERATING MEASURES, WHICH ARE PRINCIPAL IN THE GOVERNMENT'S PROPOSAL. CHANCELLOR SCHMIDT ARGUES THAT THE ONLY ALTERNATIVE TO HIS PROGRAM WOULD LEAD TO LARGER PUBLIC SECTOR FINANCING REQUIREMENTS AND THEREFORE TO TOO HEAVY A DEMAND ON THE CAPITAL MARKETS. FINANCE MINISTER APEL RULED OUT CUTS FOR DEFENSE AND PENSIONS. END SUMMARY.

2. THE CDU/CSU ISSUED A CLEAR STATEMENT INDICATING THAT THEY WOULD OPPOSE THE GOVERNMENT'S PROPOSED 1977 TWO PERCENTAGE POINT INCREASE IN THE VALUE-ADDED TAX (VAT). WITH REFERENCE TO THE OTHER MAJOR REVENUE PRODUCING PROPOSAL OF THE GOVERNMENT, THE INCREASE IN THE EMPLOYER-EMPLOYEE UNEMPLOYMENT INSURANCE PREMIUMS, THE CDU/CSU WAS LESS CLEAR, INDICATING ONLY THAT THEY DID NOT APPROVE OF THESE PROPOSALS "IN THE FORM SO FAR PUBLICLY KNOWN." AS FAR AS THE GOVERNMENT'S PROPOSED CUTS IN PUBLIC SECTOR EXPENDITURES ARE CONCERNED, THE OPPOSITION INDICATED THAT A MORE SPECIFIC REACTION WOULD BE PROVIDED ONCE THE STILL LACKING DETAILS OF THE GOVERNMENT'S PLANS WERE MORE COMPLETELY KNOWN. SINCE NO MENTION WAS MADE OF THE TOBACCO AND ALCOHOL TAX INCREASES, IT IS SURMISED THAT THE OPPOSITION IS WILLING TO ACCEDE TO THESE.

3. ACCORDING TO THE CDU/CSU, THE CURRENT 'SERIOUS CRISIS' CANNOT BE OVERCOME BY 'ISOLATED' MEASURES BUT MUST BE PART OF AN OVERALL PROGRAM TO REVIVE ECONOMIC ACTIVITY, OVERCOME EMPLOYMENT AND RESTORE SOUND PUBLIC SECTOR FINANCES BY A BASIC REORIENTATION OF FISCAL, TAX, AND SOCIAL POLICIES. THE OPPOSITION SEEKS GREATER PUBLIC SECTOR SAVINGS THAN THE GOVERNMENT PROPOSES; IT REQUESTS THAT THE GOVERNMENT REFRAIN FROM SUBMITTING ANY NEW BILLS INVOLVING EXPENDITURE INCREASES AND RECOMMENDS THAT THE OPPOSITION CONTROLLED STATES WITHDRAW ANY OF THEIR OWN DRAFT LEGISLATION THAT WOULD HAVE A

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DETRIMENTAL FINANCIAL IMPACT. IN ADDITION, THE CDU/CSU CALLS FOR TAX CUTS FOR BUSINESS AIMED AT STIMULATING INVESTMENT (WHICH INCIDENTALLY IS A FDP FAVORITE HOBBY HORSE WHICH BIT THE DUST IN THE COURSE OF THE SDP-FDP COALITION'S OWN INTERNAL BARGAINING), ALONG WITH "MORE ACTIVE" POLICIES AIMED AT CAPITAL FORMATION BY WORKERS AND STABILITY-ORIENTED WAGE POLICIES. THE INCREASE IN THE EMPLOYER-EMPLOYEE UNEMPLOYMENT INSURANCE PREMIUMS

WAS REJECTED SINCE IT WOULD COME AT AN 'UNSUITABLE TIME,'
IMPLYING THAT THE ONLY PROBLEM IN ACCEPTING THIS ASPECT
OF THE GOVERNMENT'S PROGRAM IS TIMING AND THEREBY
SUGGESTING AN AREA IN WHICH COMPROMISE MIGHT BE REACHED.

4. CDU/CSU SHADOW ECONOMICS MINISTER STOLTENBERG IS RE-
PORTED TO HAVE SAID THAT FURTHER DETAILS ON THE CDU/CSU
CONCEPT WOULD BE ANNOUNCED ONLY AFTER THE GOVERNMENT'S
PROGRAM WAS KNOWN IN GREATER DETAIL. HE DID ALLUDE,
THOUGH, TO THE POSSIBILITY THAT THE CDU/CSU PROPOSALS
WOULD INCLUDE UNPOPULAR SAVINGS MEASURES WHICH WOULD BE
OF A MAGNITUDE TO OFFSET THE REVENUE SHORTFALLS FROM THE

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DROPPING OF THE VAT INCREASE. (THE VAT INCREASE OF 2 PERCENTAGE POINTS IS FORECAST TO RAISE NEARLY DM 8 BILLION IN 1977). THE REPORTS ARE THAT IN A MEETING OF THE CDU/CSU STATE FINANCE MINISTERS ON THE GOVERNMENT'S PROPOSED SAVINGS AND TAX PROGRAM, THE SAARLAND (WHERE THE CDU DOES NOT HAVE A LANDTAG MAJORITY) WOULD ALIGN ITSELF COMPLETELY WITH THE CDU/CSU MAJORITY IN THE BUNDESRAT ON THE ISSUE OF THE VAT INCREASE. THIS WOULD SEEM TO SEAL THE DOOM OF THIS ASPECT OF THE GOVERNMENT'S PROGRAM, REQUIRING AS IT DOES APPROVAL OF THE BUNDESRAT.

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5. CHANCELLOR SCHMIDT IN A TV INTERVIEW SAID THAT IF THE CDU/CSU MAJORITY IN THE BUNDESRAT KILLS HIS PROGRAM THEN THEY WOULD HAVE TO BE ASKED JUST HOW THEY WANT TO COPE WITH THE PROBLEM. HE CONCLUDED THAT THEY WOULD HAVE TO ADVOCATE HIGHER GOVERNMENT BORROWING. THIS, SCHMIDT SAYS, IS IMPOSSIBLE SINCE GOVERNMENT ON ALL LEVELS IS HEAVILY TAPPING CREDIT MARKETS THIS YEAR. HOWEVER, HE ASSERTED, THIS CANNOT BE OVERDONE, FOR OTHERWISE THERE WILL BE INSUFFICIENT CREDIT AVAILABLE FOR THE ECONOMY. THEREFORE, SCHMIDT INDICATED, THE ADDITIONAL BORROWING, WHICH IS THE ONLY OTHER WAY OUT OF THE CURRENT FISCAL CRUNCH OTHER THAN THE TAX INCREASE, WOULD SIGNIFY TOO HEAVY A DEMAND ON THE CAPITAL AND CREDIT MARKETS. IF THE CDU/CSU SHOULD REJECT EVERYTHING THE GOVERNMENT PROPOSES IN THE BUNDESRAT, THEN THEY WILL HAVE TO BEAR THE RESPONSIBILITY, CHARGED SCHMIDT. (COMMENT: HERE THE KEYWORD SEEMS TO BE "EVERYTHING", THEREBY IMPLYING THAT PARTIAL ACCEPTANCE, COULD LEAD TO A COMPROMISE OR AT LEAST THE CONCLUSION THAT HALF A LOAF IS BETTER THAN NONE.)

6. FINANCE MINISTER APEL, ON THE SAME SUBJECT, INDICATED THAT THE OPPOSITION WILL REALIZE THAT THE ONLY ALTERNATIVE TO THAT PROPOSED BY THE GOVERNMENT IS A MASSIVE SAVINGS PROGRAM WHICH WOULD ONLY BE POSSIBLE IN THE FIELD OF DEFENSE AND PENSIONS. HE SAID THAT THESE TWO AREAS, INsofar AS THE GOVERNMENT IS CONCERNED, ARE NOT SUBJECT TO CUTS.
HILLENBRAND

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